

BEFORE THE FEDERAL ELECTION COMMISSION

In the Matter of)
) MUR 5721
 Lockheed Martin Employees' PAC and)
 Stephen E. Chaudet, in his official capacity)
 as Treasurer)

GENERAL COUNSEL'S REPORT # 2

I. ACTIONS RECOMMENDED: Accept the attached conciliation agreement with the Lockheed Martin Employees' PAC and Stephen E. Chaudet, in his official capacity as Treasurer, sever the remaining respondent, Kenneth Phelps, open a new MUR as to him, and close the file in MUR 5721.

II. BACKGROUND

This matter arose from an audit of the Lockheed Martin Employees' PAC ("LMEPAC" or "Committee") and a referral from the Reports Analysis Division ("RAD") stemming from LMEPAC's failure to disclose all financial activities. The audit of the Committee had revealed that the Committee's former treasurer had embezzled \$170,000 from it, and that the Committee's apparent lack of internal controls on its finances may have made the embezzlement possible.

On March 21, 2006, the Commission found reason to believe that: 1) LMEPAC and Stephen E. Chaudet, in his official capacity as Treasurer, violated 2 U.S.C. §§ 432(c)(5); 434(b)(4), (6)(B)(v) and 11 C.F.R. § 104.3(b) by failing to accurately account for and report certain disbursements; 2) LMEPAC and Stephen Chaudet, in his official capacity as Treasurer, violated 2 U.S.C. § 434(b)(2), (3) and 11 C.F.R. § 104.3(a) by failing to disclose certain receipts; and 3) Kenneth Phelps knowingly and willfully violated 2 U.S.C. §§ 432(b)(3), (c)(5); 434(b)(4), (6)(B)(v); 11 C.F.R. § 104.3(b) by commingling committee funds with personal funds and failing

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1 to accurately account for and report certain disbursements.¹

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5 LMEPAC officials and
6 its Treasurer, Steven Chaudet, were cooperative by providing numerous sworn affidavits and
7 voluntarily meeting with us. As a result, we discovered that the failure to disclose receipts as
8 well as the inaccurate disclosure of disbursements resulted from the embezzlement. In addition,
9 we learned that Chaudet inquired about the status of the outsourcing some PAC functions on a
10 number of occasions, but Phelps engaged in efforts to conceal his scheme from LMEPAC
11 officials. Nevertheless, the outsourcing process lasted more than 2 years and was never
12 completed, and the Committee did not internally segregate Phelps' responsibilities either.
13 Chaudet has informally acknowledged that he became suspicious after one year. After
14 discovering the embezzlement, LMEPAC ultimately segregated certain financial responsibilities
15 by assigning bank reconciliation to its corporate office in Bethesda, Maryland and issuing checks
16 from its Florida office.

17 **III. CONCILIATION AND CIVIL PENALTY**

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¹ The Commission, however, rejected this Office's recommendation regarding possible record keeping violations and found no reason to believe that the Committee violated 11 C.F.R. § 104 14(b)(1).

MUR 5721
General Counsel's Report #2

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3 **IV. KENNETH PHELPS**

4 This Office notified Phelps that the Commission had found reason to believe he violated
5 the Act. ² We have subsequently
6 tried to contact him, but he has not responded.
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8 Finally, we recommend that Phelps be severed from the current MUR and that a new
9 MUR be opened as to him so that the appropriate documents regarding the settling respondent
10 will be available to the public as soon as possible.
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² At the time the Commission found reason to believe Phelps violated the Act, we did not have Phelps' current contact information. Neither the Committee nor public records provided a current address or telephone number. A lawyer retained for Phelps indicated that Phelps moved from his prior residence with no forwarding address and disconnected his telephone numbers. He had not been in contact with Phelps since March 2004.

V. RECOMMENDATIONS

1. Accept the attached conciliation agreement with the Lockheed Martin Employees' PAC and Stephen E. Chaudet, in his official capacity as Treasurer;
2. Sever Kenneth Phelps from MUR 5721, and open a new MUR as to him;
3. Close the file in MUR 5721; and
4. Approve the appropriate letter.


Lawrence H. Norton
General Counsel

Lawrence L. Calvert Jr.
Deputy Associate General Counsel for Enforcement

DATE: 7/12/06

BY:


Ann Marie Terzaken
Assistant General Counsel


Jin Lee
Attorney

Attachment:

1. Conciliation Agreement with Lockheed Martin Employees' PAC and Stephen E. Chaudet, in his official capacity as Treasurer.